

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

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Periodic Reporting (Proposal One)

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Docket No. RM2023-4

COMMENTS OF THE  
AMERICAN CATALOG MAILERS ASSOCIATION (ACMA)  
(March 10, 2023)

Pursuant to Commission Order No. 6441, “Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal One),” February 14, 2023, ACMA is pleased to submit these comments.

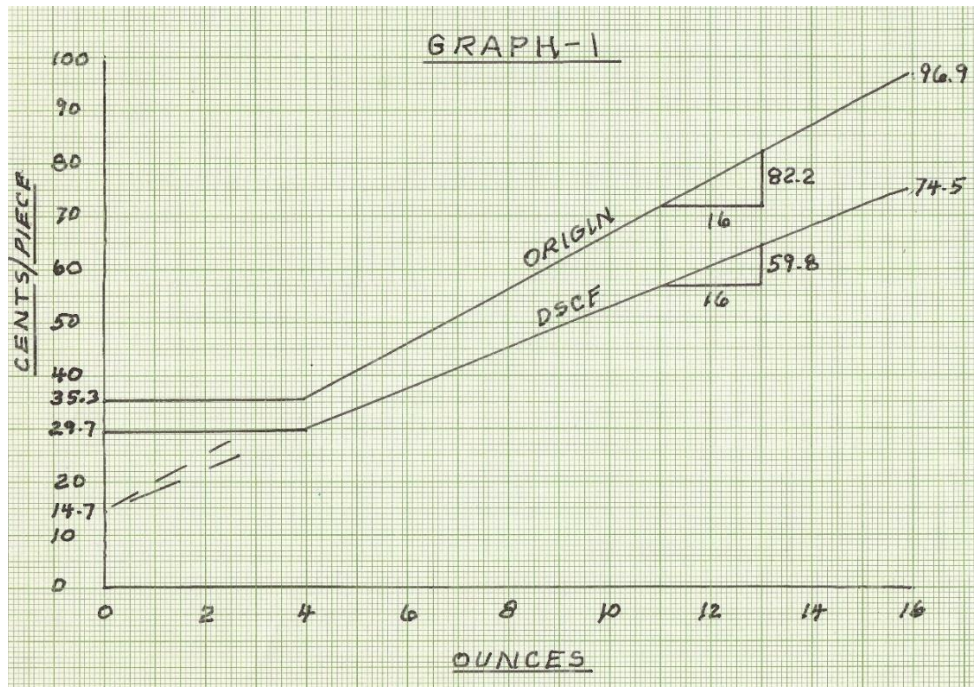
**Current Rate Design.** As a reference point, it is helpful to review how rates are developed currently. Graph-1 shows the rates for Basic Carrier Route (CR) flats that were implemented on August 29, 2021.<sup>1</sup> Only the origin and DSCF curves<sup>2</sup> are shown. Nothing is lost by this simplification, as the DNDC and DDU curves would be more of the same. A review of the rates for MM (Marketing Mail) Flats, HD Flats, HD Plus Flats, or Saturation Flats would be similar.

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<sup>1</sup> These are the rates used as an example by the Postal Service in this filing. They are based largely on analyses and findings of the Commission in Docket No. ACR2020.

<sup>2</sup> It might be considered a misnomer to refer to lines, some of which have bends, as “curves,” whether or not parts of the lines have slopes of zero. However, since a line segment is simply a curve with an infinite radius, the reference is perfectly correct.

Also, to make reading easier, we will use certain obvious abbreviations, mainly oz for ounce, rt for rate, pc for piece, ¢ for cents, and lb for pound, particularly for quantitative expressions that are repeated often.



The curve height is the rate for a piece. The area under the curves, if weighted by volume, which we will assume herein, is the revenue. This is true for all curve geometries, current and proposed. Similarly, the vertical distance between the curves is the elemental dropship discount, and the area between them is the discount amount.<sup>3</sup>

The Postal Service (hereinafter “Service”) states that it “develop[s] the heavier weight pound pricing first, which then forms the basis of the price for pieces 4 oz. and less.” Petition at 7. This means developing the slope and intercept of the lb-rate curve (here 82.2 ¢/lb and 14.7 ¢/pc, respectively). These determine the break-point (4, 35.3),<sup>4</sup> and thus the minimum-per-piece (“min/pc”) rate. The dropship discount is selected next, which determines the DSCF curve. The total revenue can then be calculated. If it is different from the desired revenue, the procedure would be to go back and change

<sup>3</sup> Herein, the “discount” is a number of cents per piece and a “discount amount,” sometimes a “dropship-discount amount,” sometimes including the word “total,” is a number of dollars received due to the discount. The first could be 6¢ and the second could be \$6,000. The context should resolve any ambiguity.

<sup>4</sup> On an x-y graph, it is common to identify a point in terms of its x coordinate (here 4) and its y coordinate (here 35.3), as (4, 35.3). It is also common to refer to a slope in terms of its rise over its run, as in (82.5¢/16ozs), or (82.5/16) if the dimensions are understood. Both of these are done herein.

the lb-rt, intercept, or discount. The Service does not explain how it makes these decisions.

To avoid the large rounding effects on it, one could begin instead with the min/pc rate, which also determines the break-point. Then, factoring in a dropship discount, a vertical pound-rate curve through this point could be rotated clockwise until the desired revenue is obtained.

An equation for the revenue would have three unknowns, min/pc rate, intercept, and pound rate. For a given break-point weight, a relation between two of them exists, which leaves two unknowns. To go further requires that something be selected. If there is no meaningful guidance, such selections are arbitrary.<sup>5</sup>

The Service reasons that the min/pc rate can “be said to contain both a per-piece and per-pound component, as [the rates for] pieces above 4 oz. do, but the per-pound component is held constant at 4 oz.,” *Id.* at 10. It says this because the min/pc rate is determined by the pound rate and the intercept. In Docket No. R90-1, to accommodate the min/pc structure smoothly, a decision was made to give the <4-oz pieces a per-pc rate equal to the postage-per-piece of lb-rated pieces at the break-point. Since the

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<sup>5</sup> It would seem that the Postal Service, the Commission, and anyone interested in the efficiency of rates would be interested in whether rates are effectively cost based. The Service in particular should be interested in whether a discount-induced shift causes its profits to decrease. Suppose the DSCF discount is increased and a mailer facing a further-haul of 300 miles decides to dropship. The revenue declines by the shifted volume times the new discount. The cost declines by the shifted volume times the Service’s avoidance. If the discount is based on a net haul of 1,060 miles (an estimate discussed in the text), as it is done currently, the revenue decline will likely be much larger than the cost decline. The only way to avoid this misfortune is to base the discount on the reduction in haul for the Service, which could be a bit higher than 300 miles. And it is differences in volume-variable costs that are relevant. Attributable costs that include non-volume-variable costs are not relevant to changes in costs when mail shifts, and using them for guidance can be deleterious to all parties.

For its part, the Commission has attached considerable importance to the efficiency of the rates. Mailers often point as well to efficiency. Two relevant kinds of efficiency are discussed in the economic literature. The first focuses on the utility of the mailers. Elasticities and cross-elasticities become important. This notion of efficiency has not played much role in postal ratemaking, at least not in recent years. The second focuses on a kind of technical efficiency that looks at whether the lowest-cost provider does the work. The idea is that if mail that is candidate for worksharing (which would likely be Service’s lowest cost mail) costs the Service 12¢ to process to a level in question, then a discount of 12¢ should be given. If the mailer can process to that level for less than 12¢, he will do it, and efficiency is increased. Focusing on an avoidance, however, and particularly on the lump-sum of workshare activity, is different from focusing on technical efficiency.

min/pc rate does not change with weight, it is strange and not clearly helpful to say that it has a “per-pound component.”

**Current Passthrough Calculation.** Applied to the workshare constraint of the Postal Service, the fundamental tenet of worksharing is that a specified piece of work is in question and the mailer is offered a discount (or discount amount) that is some portion of the cost to the Service of doing that work.<sup>6</sup> The mailer can then decide whether to do the piece of work himself. The discount is often called a signal, and the cost to the Service is often called an avoidance.

Passthroughs percentages quantify the relation of the discount to the avoidance. The denominator is to be the Service’s cost to do the specified piece of work and the numerator is to be the portion of that cost that is offered as a discount. The passthroughs may be found in Attachments B and Folders 3.<sup>7</sup>

In some cases, a piece of work in question is specified clearly enough to allow costing. In the case of dropship discounts, however, no piece of work can be specified—one might say that the pieces are legion, are of assorted sizes, and are unspecified.

For a (not necessarily small) sub-group of mailings, the nearest (or suitably near) acceptance facilities *are* the DSCFs, making the mailers’ further-hauls<sup>8</sup> and the Service’s avoidances zero. For mailings that are not in this sub-group, the mailers must choose between (a) hauls to their nearest (or suitably near) acceptance facilities and (b)

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<sup>6</sup> The use of the term “portion of” in this statement and otherwise herein, is not meant to exclude the possibility that the portion is equal to or greater than 100% of any subsequent. It is meant as a perfectly neutral reference.

<sup>7</sup> An Attachment B is filed with each Price Change Notice. Folder numbers refer to folder numbers in Annual Compliance Reports.

<sup>8</sup> By “further-haul,” so hyphenated herein, we mean the haul to the DSCF minus the haul to the nearest (or suitable near) acceptance facility. For example: The latter facility could be 100 miles to the east and the DSCF could be 300 miles to the west. The further-haul would be 200 miles. The Service, however, would avoid a haul of 400 miles.

Another complicating factor, not dealt with directly in these comments, is the interplay between the NDCs and the SCFs. All this depends on the roads available, but: To the extent that an NDC is in the center of a group of SCFs, a mailer’s haul to an SCF may be shorter than the haul to an associated NDC, yet the discount to the SCF is larger. This factor adds to the conclusion in the text that rates should be based on the costs from the entry point, and let the mailers decide what is best for them.

further-hauls to DSCFs. These further-hauls vary widely in length and are often several hundred miles. The avoidances allowed by these further-hauls are determined by the Service's hauls from the mailers' nearest (or suitably near) facilities to the DSCFs, which are almost always longer than the further-hauls. If information about any of this were available, and it is not, it would be a veritable smorgasbord.

Basically, there is no way to specify a piece of work in question, cost it, and base the discount on it. Selecting an avoidance arbitrarily and proceeding anyhow violates the fundamental tenet, that the mailer must be presented with a discount that is a portion of the cost of the operator to do the piece of work in question. To contrive a passthrough, despite this jumble, the focus has been shifted from a specified piece of work to the lump-sum of the dropshipping being done.<sup>9</sup>

The avoidance for this lump-sum has been taken as *the total incremental cost that would be incurred if all current DSCF mail took on instead the cost of the mail currently entered at the origin rates*.<sup>10</sup> Only 2.5% of CR mail still pays the origin rates, as the category has been stripped of the DNDC (8.1%), DSCF (88.5%), and DDU (1.0%) mail. In other words, all mail in practicable proximity to a destination facility, which was clearly almost all of it, has shifted, making the haul of the remaining origin mail very high. We estimate this haul to be at least 1,060 miles, on a net basis.<sup>11</sup> Therefore, this avoidance amount is for an extreme, irrelevant hypothetical. It is extreme because of the rarefied character of the mail still paying the origin rates; it is

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<sup>9</sup> Shifting to a lump-sum (i.e., group, program, aggregate) analysis can be a good thing if the components being aggregated are similar instead of diverse. But that is not the case here, which suggests the difficulty that each mailer faces a different hurdle, to which the signal is not tailored.

<sup>10</sup> Actually, the cost applied to the DSCF flats is an estimate of the current cost of all MM flats paying the origin rates, thus including not only CR but also the other flats categories. The difference between the current cost of CR and the current cost of all MM flats, which changes with mix, may be responsible for some of the misbehavior cited in the petition.

<sup>11</sup> The average net haul of flats paying the origin rates is herein the average haul of that mail minus the average haul of mail delivered from SCF facilities. In all cases, the hauls are the hauls that exist at the time the cost study is done and the rates are set, not the hauls that would exist if no mail were DSCF-entered or if the DSCF volume actually moved to typical origin rates.

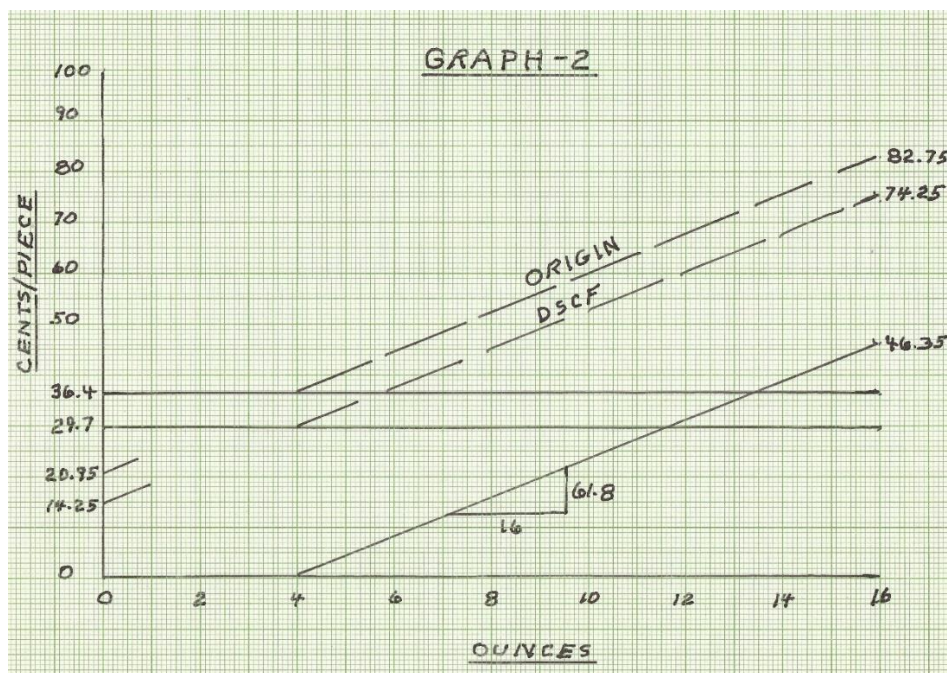
Folder 13 (second tab) shows the ratio of origin to DSCF transportation costs to be  $45.87 \div 5.35$ . If the haul of mail paying the origin rates is 1,200 miles, and this ratio applies, the haul of DSCF mail is about 140 miles. This makes the net haul of origin mail about 1,060 miles. It could be more. It would be helpful if the Service would provide estimates of these hauls.

irrelevant because it has no relation to any further-haul that is in question, to the further-hauls that are occurring, or to the avoidances these hauls allow.

The numerator is taken as the total of the discount amounts parceled out to the DSCF mailers. Each saw a one-size-fits-all elemental discount, either on a piece basis or a pound basis, that rarely had anything to do with the further-haul he faced. Graphically, this discount amount is the area between the Origin and DSCF curves.

Therefore, the current passthrough estimates are meaningless. The avoidance is based on an extreme haul that does not relate to the hauls the Service avoids or to the further-hauls the mailers are facing or undertaking. To the extent that the discount is equal to this avoidance, the mailers are given a 1,060-mile discount for further-hauls that vary widely and average well below that. The passthrough percentage has no bearing on the efficacy of, the efficiency of, or the costbasedness of the rates.

**Proposed Rate Design.** Now consider the Service's proposal. The rate curves for the illustrative rates in it are shown in Graph-2.



To get these curves, the Service states that it “develops the per-piece price first,” 36.4¢, and applies it to “[e]very piece,” 0-16 ozs. Added to this is a per-lb rate, 61.8 ¢/lb, that is “only applicable to the weight above 4 ounces.” *Id.* at 7-8. The lb-rate is



shown as a curve going through (4, 0). A <4-oz piece pays only the 36.4¢. A >4-oz piece, say a 6-oz piece, pays the 36.4¢ plus a pound rate of 7.725¢ ((61.8 ¢/lb ÷ 16 oz/lb)\*(6 oz-4 oz)). The two curves can be summed vertically by moving the lb-rate curve upward until it touches 36.4¢ at the break-point. This gives the partly-dashed ORIGIN curve. Then a dropship discount of 6.7¢ is given to all pieces, determining the DSCF curve, also partly dashed.<sup>12</sup>

Once the ORIGIN and DSCF curves are drawn, it is apparent that the dashed parts of them, if extended, have intercepts on the vertical axis, 20.95¢ and 14.25¢, respectively.<sup>13</sup> This means the rates can be shown in a schedule as a min/pc rate and a pc-lb rate, essentially like the current schedules. For example:

|                 |  |
|-----------------|--|
| Current origin: | min/pc 35.3¢, lb-rated 14.7¢ + 82.2 ¢/lb |
| Current DSCF:   | min/pc 29.7¢, lb-rated 14.7¢ + 59.8 ¢/lb |

|                  |   |
|------------------|---|
| Proposed origin: | min/pc 36.4¢, lb-rated 20.95¢ + 61.8 ¢/lb |
| Proposed DSCF:   | min/pc 29.7¢, lb-rated 14.25¢ + 61.8 ¢/lb |

*Compare ChIR 1 Q3.xlsx.*

As in Graph-1, the areas under the curves are the revenues. If the revenue is too low, the pc-rt or the lb-rt can be increased, or the discount can be decreased.

Except that its rounding effects are larger, it is not clear what is gained by developing the pc-rt first, although the Service states it as a feature, or what guides that development. After selecting the pc-rt and the dropship discount, the drill would be to begin with a lb-rt of zero and simply rotate the pound curve counterclockwise around point (4, 0) until the desired revenue is obtained.

*In Graph 1*, the >4-oz portions of the curves are not parallel. They offer a per-lb discount that increases with wt/pc but not with the further-hauls. *In Graph 2*, the >4-oz portions of the curves are parallel. They offer a per-pc discount that does not increase

<sup>12</sup> The Service presents similar curves. See response to Q4, CHIR No. 1.

<sup>13</sup> The lb-rate curve going through the point (4, 0) has an intercept on the vertical axis, if extended, of -15.45 ¢/pc. Adding -15.45 to the 36.4 piece rate gives the 20.95 intercept.

with either the further-hauls or the wt/pc. To the further-hauls faced by mailers or to the avoidance costs the Service would otherwise incur, the Graph-2 discounts have no relation. A mailer facing Graph-2 rates could easily say: “My pieces are three times as heavy as his, and it costs me three times as much to dropship them, but I am getting the same discount amount as he is—how can I pay for my trucks?” Or, as in Graph-1 too: “I have to haul my mail twice as far as he does, but I get no more discount amount—this is unfair.”

**Passthrough Calculations for Graph-2.** Now look at the passthrough estimate for Graph-2, and begin by calculating it the current way, as was done for Graph-1: the total dropship-discount amount divided by the origin-estimated avoidance.

The total dropship-discount amount is the area between the partly-dashed ORIGIN and DSCF curves. Since the discount here is set at 6.7 ¢/pc for all pieces, independent of wt/pc, this area is simply 6.7 ¢/pc times the total number of DSCF pieces. As proposed, this amount will not change if the weight distribution of the DSCF volume changes, although any avoidance of the Service would.

Continuing, the total avoidance amount is taken as the incremental cost that the Service would incur if all of the DSCF volume took on instead the cost of current origin mail. This incremental cost is 41.1 ¢/lb times the total DSCF volume in pounds, which, by construction, is identically equal to 7.76 ¢/pc times the total number of DSCF pieces.<sup>14</sup> Using the latter formulation, the passthrough proportion becomes:

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<sup>14</sup> In Folder 13, the avoidance is estimated in ¢/lb. This makes sense because the costs at issue are 97% to 99% transportation costs, which are pound-oriented—if the number of pounds changes and the number of pieces remains the same, the costs will change, but if the number of pieces changes and the number of pounds remains the same, the costs do not change. In other words, the driver is pounds, not pieces. The Service agrees with this assessment in its response to Q2 of CHIR No.1, Docket No. RM2017-11, August 29, 2017. If the ¢/lb is right for CR and is multiplied by the ratio of lbs/pc, one obtains ¢/pc. This ¢/pc figure times the number of pieces gives the same result as the ¢/lb times the number of pounds. There are two potential problems here. (a) Applying the ¢/pc figure will give a good estimate only if the lb/pc of the mail does not change. (b) Folder 13 multiplies by the lbs/pc for *all* Marketing Mail flats, not by the lbs/pc for CR flats. The Service agrees with this too, *Id.*, which makes it strange that it now proposes to use the ¢/pc figure to set the discount. Either of these problems could be a source of instability.



$$\frac{6.7 \frac{\text{¢}}{\text{pc}} * \text{total number of DSCF pieces}}{7.76 \frac{\text{¢}}{\text{pc}} * \text{total number of DSCF pieces}},$$

which reduces to  $6.7 \div 7.76$ , which = 86.34%.

Building on the decision to set the dropship discount at 6.7¢ for every piece, the proposal is to express the avoidance on a per-pc basis as well, 7.8¢ on every piece (rounded from 7.76¢), thus allowing the passthrough to be calculated on each piece,  $6.7\text{¢}/7.8\text{¢} = 85.9\%$ , which, except for rounding, is exactly the same as the 86.34% obtained above using the current procedure.<sup>15</sup> This shows that the proposed passthrough calculation has all of the weaknesses of the current calculation, and that the passthrough differences shown on the Illustrations sheet are due to the discounts being different, rather than to any change in the procedure for estimating them. Also, the new calculation does not appear to vary with the weight distribution of the pieces, though costs certainly would. We will discuss in the next section whether it *should* vary with the weight distribution.

As noted above, a passthrough calculation is to have as its denominator the avoidance allowed by a specified piece of work and as its numerator a discount based on that avoidance, given to mailers to help them decide whether to do the specified piece of work themselves. The Service's new passthrough calculation, like its old one, does not fit this bill, nor is it in the ballpark.

**The Update Matter.** Consider the 5-d auto presort discount for MM Flats implemented at the same time as the Graph-1 rates, 12.5 ¢/pc. The cost avoidance on which it was based was taken from Folder 11 in the 2020 ACR, 15.8 ¢/pc. Consistent with standard practice, no updating for basic cost changes was done. The 12.5 ¢/pc was applied to each piece and the 15.8 ¢/pc was viewed as the avoidance for each piece. This gave a passthrough of  $\frac{12.5 \text{ ¢/pc}}{15.8 \text{ ¢/pc}} = 79.1\%$ . Given that these were viewed as applying to each piece, they apply also to the pieces as a group. Therefore, if done as

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<sup>15</sup> See the Service's workbook Illustrations.xlsx, instant docket, hereinafter "Illustrations sheet."

for the dropship discount in Graph-1, the passthrough would have been calculated as

$$\frac{12.5 \text{ ¢/pc} * \text{total 5-d volume in pieces}}{15.8 \text{ ¢/pc} * \text{total 5-d volume in pieces}}, \text{ equalling the same } 79.1\%.$$

For the *dropship* discounts, however, things are a little different. Similar to presort, the avoidance of 41.1 ¢/lb is taken from a folder in the 2020 ACR, is viewed as applying to all pieces, and is not updated for basic cost changes. However, the discount of 22.4 ¢/lb does not apply to all pieces. Specifically, this discount applies to the lb-rated pieces while the pc-rated pieces are given a per/pc discount that is equal to the lb-rated discount at 4 ozs. This means that the discount amount relative to the avoidance varies with the CR mix, which can be updated easily. This is done at the time rates are set by recognizing the most recent four quarters of billing determinants.<sup>16</sup> This update, though perfectable sensible, contributes to the problems cited by the Service.

As a solution, the proposal is to convert the avoidance of 41.1 ¢/lb to 7.76 ¢/pc (by multiplying it by the 2020 ratio of pounds to pieces), to assume that the 7.76 ¢/pc does not need updating, to take the avoidance as 7.76 ¢/pc for all pieces, and to give the discount on a per/pc basis, to all pieces, here 6.7 ¢/pc. Then, if the discount and the avoidance are the same for all piece, it appears that the passthrough can be calculated for each piece or for the group of pieces, as  $6.7 \text{ ¢/pc} \div 7.76 \text{ ¢/pc} = 85.9\%$ . But this solution has the serious flaw that the ratio of pounds to pieces, and thus the 7.76 ¢/pc, is influenced by changes in mix and needs to be updated just as much as the mix needs to be updated in the current procedure. The solution is not an acceptable fix—the 41.1 ¢/lb may remain unchanged, but the 7.76 ¢/pc does not remain unchanged. The solution should not be approved—it is trickery.

**Signals Sent to Mailers.** Consider Mailer A and Mailer B, both of whom print at a plant in Pennsylvania. Both are planning to dropship a mailing of 500,000 pieces to the Los Angeles SCF, a haul of about 2,500 miles.<sup>17</sup> The only difference is that Mailer A is planning 4-oz pieces and Mailer B is planning 12-oz pieces. If a truck can carry up to

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<sup>16</sup> See Attachment B R2021-2.xlsx, tab Flats & Parcels Dropship.

<sup>17</sup> This example illustrates the confounding signals sent by the rates, but we do not present it as common in its particulars.

45,000 pounds, simple calculations show that Mailer A would send 2.78 truckloads and Mailer B would send 8.33 truckloads. Mailer B would send 3 times as many truckloads as Mailer A.

Under the Graph-1 rates, both mailers would get a dropship discount of 22.4 ¢/lb. This means that Mailer A would get a discount amount of \$28,000 and Mailer B would get a discount amount of \$84,000. Therefore, Mailer B's discount amount is 3 times Mailer A's, exactly the ratio of the number of truckloads sent. Whether these mailers will choose in the end to dropship is open to question. The discount provided is a portion of a haul that we have estimated at 1,060 miles, a haul that is much lower than the hauls being considered. If these mailers understood the discounts, neither would think them to be fair. And if these mailers are interested in controlling service, it is not good policy to take advantage of that interest.

Now consider the Graph-2 rates. Each mailer would receive a discount amount of \$33,500. Mailer A's amount goes from \$28,000 up to \$33,500. Mailer B's amount goes from \$84,000 down to \$33,500. Neither amount has anything to do with the cost the Service would incur to haul mail 2,500 miles. If Mailer B knows about Mailer A, he will be furious. If either mailer decides not to dropship, the incremental costs incurred by the Service due to that decision will be higher than the increase in postage. The discounts fail in every way to be sensible.

Under the same Graph-2 rates, assume that the same two mailings are going to Pittsburgh instead of to Los Angeles, and that the haul to the Pittsburgh DSCF is 100 miles further than the haul to the nearest (or suitably near) acceptance facility, the latter facility being 250 miles from Pittsburgh. Each mailer would see a discount amount of \$33,500, the same as the amounts to Los Angeles. Mailer B would still need to send 3 times as many trucks as Mailer A. Mailer B could find his rates to be inequitable. If these mailers decide to dropship instead of origin enter, the reduction in revenue for the Service will be larger than its reduction in cost. Therefore, the Service could be unhappy.

Other examples could be considered. The signals in the Graph-1 rates are not good; the signals in the Graph-2 rates are much worse. It is not only the mailers who would be unhappy with Graph-2, it is also the Service.

**Conclusion.** It is difficult to see that the proposed change in rate structure should make a material difference in whether rules are complied with. We can see that the geometry of the rate curves has changed some, and mailers may respond to it (in ways that are deleterious to all concerned, we believe), but this is an outcome, not a matter of whether rules were followed. The height of the curves still shows the rate for each piece. The area under the curves is still the revenue. The vertical distance between the curves is still the discount. The area between the curves is still the discount amount. Though we see serious problems with it, no real change has been proposed in how the avoidance is estimated. No changes have been proposed for the analysis in Folder 13. There is no proposal to forecast how mailers will respond to any rate or discount changes, though they always do. We *do* see that the Service does not want to update volume proportions at the time rates are set, though we can find no reason why that is a bad or difficult thing to do. We have shown that updating the per-piece avoidance, at the time rates are set, is just as logical as updating the volume proportions. It *does* appear that changes in dropship decisions, weight distributions, and volume mix generally, sometimes in non-CR categories, can affect outcomes in choppy ways. These kinds of things may be inevitable or they may not, but they do not call for setting inferior rates.

We have explained that the way workshare discounts are developed and presented is at serious variance with the fundamental tenet of workshare schemes, that the discounts seen by mailers be based on the avoidances allowed by the further-hauls they are considering. We have also explained that passthrough proportions are to have as a numerator the signal given to mailers to help them decide whether to do specified pieces of work and as a denominator the cost to the Service of doing that work, but that neither the current estimating procedure nor the one proposed come close to fitting this requirement. Therefore, the passthroughs now being estimated are meaningless—they are not in the ballpark and it makes no sense to fine tune around them. We have also shown that the proposed rates dishonor rate design principles in greater degree than the current ones. For one thing, the discounts do not relate to costs in meaningful ways. Also, the avoidances do not relate to the dropship activities of the mailers or,

therefore, to any avoidance that is actually occurring or might occur. The rates do not comport with any notions of fairness or efficiency.

What can be done? (1) The Service's proposal should be rejected in all respects. It may be that rates can be made better, possibly as we suggest below, but the stated intent of the Service makes them worse. (2) If a discount arrangement that comports with the fundamental tenet of workshare schemes cannot be designed, and we do not think one can, some other design of rates should be found. (3) If a way cannot be found to estimate a relevant and meaningful passthrough, and we do not think it can, no attempt should be made to apply the workshare strictures to dropship discounts. (4) The Service should use the cost information in Folder 13, perhaps enhanced to include haul, to help design effective rates, that recognize costs in sensible ways, much as was done in Docket No. R90-1. One way to do this would be to establish rates for foundational categories like DSCF-entered Carrier Route, which now accounts for 88.5% of total CR volume, and then apply surcharges qua zone-charges that are large enough to recognize the transportation cost and the processing cost that non-DSCF mail incurs. Once this is done, let mailers choose.

Respectfully submitted,

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